Washington State Department of Social & Health Services

Dennis Braddock, Secretary

2001-03 Medical Financing | **September 2001**

Medicaid Reform in Washington State

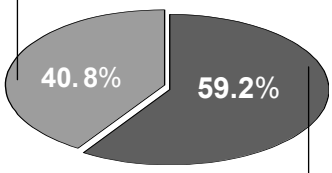
Why DSHS is asking for more flexibility and better management tools

PROTECTING THE STATE'S VULNERABLE POPULATIONS

Medicaid is divided between the Mandatory eligibility groups (mostly individuals and families below Federal Poverty Level) and Optional groups of low-income individuals and working families, where incomes may be twice the poverty level – or even higher.

Optional low-income:

Category includes children and pregnant women in working families above the poverty level and working disabled persons. Like their counterparts in Basic Health, **these clients may be assessed small co-payments and premiums – but the total assessment would not exceed 5% of their income.**



The Most Vulnerable:

Families at or below Federal Poverty Level would not have to pay premiums or lose any mandatory services, which include hospital care, physician visits, nursing services, home care, family planning or any services diagnosed as needed by children.

CHILDREN OF ALL AGES: Low-income children are protected by federal law from any barriers to care, although they may be assigned small co-pays for optional services.

PREGNANT WOMEN and NEWBORNS: Low-income pregnancies are insulated from any fee for mandatory services.

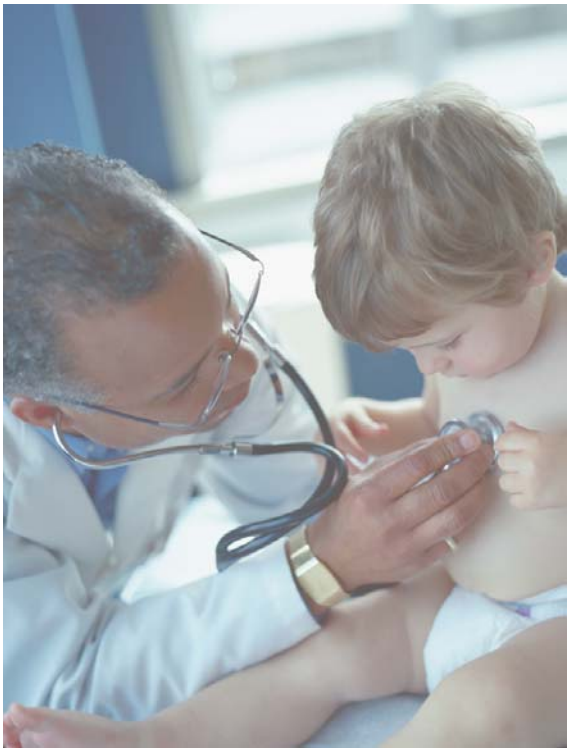
ELDERLY, BLIND AND DISABLED: Mandatory services would not change, although they could be assigned small co-pays for optional services.

REFUGEES, NURSING HOMES: People granted asylum by law receive medical care. Also unchanged: The commitment to provide long-term care for the aged and disabled.

Federal Poverty Levels

Family Size	Annual Income
1	$ 8,590
2	$11,610
3	$14,630
4	$17,650
5	$20,670

MEDICAID REFORM: Washington has been a national leader in providing health care to its children, vulnerable adults and the working poor. In a time of lower health care costs and more state funding, the state was able to expand coverage. But now health costs are continuing to increase significantly, and the demand for coverage and services continues to grow. At the same time, state funding sources are not able to keep pace. The Medicaid program gives states like Washington few options with its all-or-nothing approach. This makes it difficult to manage Medicaid benefits and choices. The Medicaid Reform Waiver will give the Governor and Legislature more sensible management options and at the same time continue to offer protection to the most vulnerable groups protected by Medicaid.



Here are three key ways Medicaid reform would deal with the squeeze on Washington's budget and Medicaid families:

ONE: Under Medicaid reform, the state would be able to use a variety of approaches to manage enrollment – capping programs when funds run short, or using enrollment waiting lists. Currently, the only way for the state to stay within appropriated funding limits is to eliminate access to entire service areas, like dental care or physical therapy, or reduce or eliminate coverage for optional eligibility groups.

TWO: Where higher-income clients can contribute to their own health care, Medicaid could carefully institute a system of small co-payments and premiums. These would not be required of the lowest-income clients (i.e., incomes below federal poverty level).

THREE: Under reform, the greatest needs and most vulnerable populations would be identified and prioritized, guaranteeing care for those who need it most.

Why does the Medicaid system need reform? Residents don't have to look far to see that the entire health care system is in trouble. The Department of Social and Health Services (DSHS) provides medical assistance to more than 850,000 Washington residents each month, and the weight of those costs has reached a budgetary milestone -- rising now at the rate of a half billion dollars a year. Medicaid programs today consume more than 40 percent of the total DSHS budget – and seem destined to eventually crowd other worthwhile social services off the agenda. In addition, reimbursement levels are leading some physicians to limit Medicaid patients. In fact, DSHS already has some eligible clients who have had difficulty accessing providers.

Medical Assistance and the DSHS Budget

Nationally, 17 percent of the non-elderly are uninsured. Washington's rate is only 9 percent, thanks to state policymakers who expanded eligibility and medical assistance benefits to more low-income people during the 1990s.

Children: The Legislature authorized three major expansions of health coverage for low-income children during the past decade. As a result, enrollment in children's Medicaid programs increased 12.5 percent per year between 1996 and 2001. It is projected to increase another 7.5 percent during the next two years.

Pregnant Women: The Medicaid-financed First Steps program was implemented in 1989 to provide health-care coverage to pregnant women and infants in households up to 185 percent of the federal poverty level. Currently, Washington's Medicaid program covers two in every five births in the state. In addition, Washington State Medicaid funds are targeting a reduction in unintended pregnancies by offering free family planning and education services to low-income residents.

Seniors: Many low-income seniors have sought Medicaid coverage to offset the growth in health-care costs, especially prescription drugs, which are not covered by Medicare.) Monthly per capita expenditures for prescription drugs for low-income seniors jumped from $118 in fiscal 1996 to $172 in fiscal 2001 – an annual increase of about 9 percent. As a result of this migration, DSHS caseloads for the elderly increased 12 percent a year between 1996 and 2001. The trend is expected to continue in the current biennium. (NOTE: The waiver proposal for Washington does not affect Medicaid's Long-Term Care benefits, which rank among its highest costs.)

QUESTIONS ABOUT THE WAIVER?

ON THE WEB:
http://maa.dshs.wa.gov/medwaiver

FOR MORE INFORMATION:
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Persons with disabilities or special needs may call DSHS at (360) 902-7604 and request a hard copy. This paper also is available electronically.

Other ways Medicaid and SCHIP reform would add flexibility

Medicaid reform also would let DSHS use unspent funds from programs like the State Children's Health Insurance Program (SCHIP) to supplement other medical assistance needs. Those could include assisting parents of SCHIP children enrolled in the Basic Health program or meeting other children's health care needs. Under current rules, Washington must return unspent funds.

It is important to recognize that the recovery of funds and the potential ability of state medical assistance to identify new uncovered needs are part of a dual approach under Medicaid reform. New and improved management tools can help make sure that Medicaid focuses on the vulnerable populations and existing commitments. The use of unspent funds provides an additional layer of flexibility to help the state finance coverage for low-income working families.

Premiums and co-payments: The Basic Health principle

Under the waiver, some Medicaid clients with incomes above the poverty level would be assigned reasonable premiums to help with the expense of their medical assistance. There also would be affordable co-payments for certain services and clients. The amount of cost-sharing under the waiver would be far below the cost of coverage in the private insurance market. The reform waiver proposes this amount plus co-pays never exceeds 5 percent of a family's income. The idea of subsidized health insurance for the working poor is not new. Washington state's Basic Health program was a pioneer effort to provide affordable family health care when it was created in 1988. Originally targeted for high unemployment counties, the program was broadened in the early 1990s as part of the state's comprehensive health care reform. Throughout its history, Basic Health has been a subsidized plan in which recipients participate in the cost of treatment. Medicaid reform would apply this sound principle to other programs.

The waiver would give the state more flexibility to administer its Medicaid program. However, any changes would require actions by the Legislature. Here are three examples of how benefits and plans could change with reform:

EXAMPLE 1: Judy, age seven, is in a mandatory eligible group. She is currently eligible for mandatory and optional medical benefits. Family income is under the Federal Poverty Level (FPL) of $17,650 for family of four. Under the waiver, the family would not have to pay a premium for the child's medical benefits but might have to pay co-payments for optional services.

EXAMPLE 2: The Ingram family includes 4-year-old Steve and 13-year-old Diana. Because of federal law, Steve is in a mandatory eligible group while Diana is in an optional group. The children are currently eligible for mandatory and optional medical benefits. Family income is approximately 125 percent of the FPL. Under the waiver, the family may pay a premium for both children as well as small co-pays because family income is over FPL . Diana may receive fewer covered medical benefits because she is in an optional group

EXAMPLE 3: Ms. Brown is in her 80s and is in a mandatory eligible group. She is currently eligible for mandatory and optional medical benefits. Her income is $550 per month. DSHS pays her Medicare premium and provides a monthly rent subsidy. Under the waiver, she would not pay a monthly premium for her medical benefits, but she may have to pay co-pays for optional medical services.

AN ANTICIPATED TIMELINE FOR MEDICAID REFORM:

- A proposed demonstration waiver is submitted by the end of October to the federal Center for Medicare and Medicaid Services (formerly the Health Care Financing Administration, or HCFA).
- Approval of the waiver should occur over the next three to six months.